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TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [PREL](#) [AR](#)  
SUBJECT: Argentina: Finance Secretary Says Debt Swap Moving Ahead  
Despite More Negative Market Environment

REF: 10 BUENOS AIRES 118

CLASSIFIED BY: Tom Kelly, DCM; REASON: 1.4(B), (D)

Summary

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¶1. (C) Argentine Finance Secretary Hernan Lorenzino expects the GoA's proposed debt swap agreement to be fully approved by international regulatory authorities and ready for launch by mid-March. Noting the recent negative market environment, he said that the exchange might have to go forward without the new money component that was earlier thought to be a key part of the proposal - the USD 1 billion that was to be raised from institutional investors as part of the deal. Lorenzino dismissed the attempt by the political opposition to tie Barclays, the lead bank working on the debt swap, to the British oil rig exploring for oil off the coast of the Falkland/Malvinas Islands. He said Barclays was not associated with the rig's owner and that its position working on the holdout proposal is secure. Regarding the Paris Club debt, Lorenzino said that the GoA would focus its attention on the issue after the holdout debt restructuring is completed; separately, however, he is telling at least one European Embassy that the GoA is unwilling to submit to an IMF Article IV consultation. He also discussed the imminent transfer of ARP 24 billion in 2009 Central Bank (BCRA) profits to the Treasury, calling it "business as usual." Finally, with regard to the Azurix ICSID negotiations, Lorenzino said that the case was moving forward and that new Treasury Attorney Da Rocha would be meeting with the Chief of Cabinet or President in the next few days to discuss it. End Summary.

SEC Still Asking Questions

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12. (C) Secretary of Finance Hernan Lorenzino told EconCouns on February 22 that the GoA is waiting for U.S. Security and Exchange Commission (SEC) approval to be able to move ahead with the proposed debt restructuring. He explained that the disruption caused by the snow storms in the U.S. had somewhat delayed the SEC's review process. The GoA expects to receive a new round of SEC questions and requests for clarifications imminently. Lorenzino said that he will not be able to estimate with any confidence when the holdout transaction would be ready to launch until he sees the number and complexity of these questions. Following authorization by the SEC, the regulatory agencies of Luxembourg, Italy and Japan will also examine the proposal. He noted that Luxembourg has already begun reviewing the documentation and sent several questions which the GoA expected to answer within the next few days. The Italian regulatory agency (Consob) has also begun an informal review of the filing. (The Italian Ambassador to Argentine Guido La Tella told the Ambassador February 18 that he had also met recently with Lorenzino and was given the same upbeat presentation on the deal's prospects.) Despite continuing uncertainty about the status of the SEC review, Lorenzino expressed the hope that all of the international regulatory agencies involved would complete their review processes within the next two to three weeks, and that the GoA would be able to launch the swap in mid-March.

#### New Money Component May Be Dropped

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13. (C) Lorenzino acknowledged that while the present market environment is becoming somewhat less positive, this does not overly concern him. The GoA's top priority is to secure all the necessary regulatory approvals to get the transaction ready for a global launch. However, he did indicate, for the first time, that the more negative market environment might require the exchange to go forward as a stand-alone transaction, without a new money component. (Conventional wisdom up to now has been that in order to support the proposals, the Kirchners had demanded that at least USD 1 billion in new money be raised from institutional investors as an integral part of the debt swap.)

#### Barclays Position as Lead Bank Secure

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14. (C) EconCouns asked whether the position of Barclays Bank as the lead bank working for the GoA in the development of the holdout proposal was endangered by opposition accusations that the bank held a significant position in the British-owned company Desire Petroleum, which is leading the controversial effort to explore for oil and natural gas in the waters off of the Falkland/Malvinas Islands. Lorenzino responded that Barclays position was secure. He said that the company does not own any part of Desire Petroleum. Rather, Barclays owns a fund that manages third-party funds which are invested in that company. He emphasized that the Barclay's business unit hired to work on the debt exchange has no connection whatsoever to anything related to the Falklands/Malvinas and would continue in its present role with regard to the holdout proposal.

#### Paris Club After Holdouts

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15. (C) Lorenzino said that while full attention is now focused on the debt exchange, the GoA has the will to move forward to solve the problem of the debt owed to the Paris Club creditors. He explained that his people have been working on a strategic plan -- which has been presented to the Minister of Economy -- to make progress on this issue after the completion of the debt restructuring. He added that discussions have progressed to the point where the government has met with various financial experts who may potentially advise it regarding how to proceed with the issue. (Italian Ambassador La Tella told the Ambassador that Lorenzino described the GoA's Paris Club game-plan in greater detail in a recent conversation, and that it is, to put it mildly, unorthodox. In lieu of an IMF Article IV consultation, the GoA will propose that the Paris Club accept a "peer review" of Argentina's economy in the G20, in which Argentina is a member, or in the OECD, in which it is not.)

#### 2009 BCRA Profits to Treasury

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16. (C) Lorenzino confirmed press articles which said that about ARP 24 billion in 2009 BCRA profits would be transferred to the Treasury. He said that this has been standard practice for the last couple of years. He compared it to a dividend payout received by stockholders in private companies, explaining that the profit on the BCRA's assets came mainly from the peso devaluation and the interest on bonds in the BCRA's portfolio. The transfer will take place after the BCRA's Board of Directors approves the transaction.

#### Azurix ICSID Case

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17. (C) Lorenzino explained that the Treasury Attorney's office (Procuracion General del Tesoro) has the lead on the Azurix ICSID case negotiations and that the Ministry of Economy's role is secondary. He mentioned that he recently participated in two meetings related to Azurix with the new Treasury Attorney Joaquin Da Rocha, in one of which Economy Minister Boudou participated. In those meetings, they discussed the general budgetary impact of ICISD cases, including Azurix, CMS, and two similar cases which had been decided in favor of the companies involved and awards were granted. Regarding the Azurix case specifically, they discussed how to deal with the complication of the involvement of the Province of Buenos Aires in the case and how that would affect the flow of money from the Treasury to the company. Despite that, Lorenzino said that he was not aware of any problems that would delay an agreement, saying that the case is moving forward, and that Da Rocha will meet in the next few days with the Chief of Cabinet and/or the President on the issue.

#### Comment

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18. (C) Lorenzino still seems to have the full support of the government to carry the debt restructuring through to a conclusion. In fact, the government seems so intent on pushing the process forward that it appears to be displaying unprecedented flexibility in the terms it is willing to accept, i.e. the potential dropping of the new money component. However, the one thing that could still derail the agreement is the possibility that Minister of Economy Boudou might be fired. Over the last few days, there have been press reports to the effect that Boudou is on his way out due to the problems caused to the government by his handling of the

BCRA leadership imbroglio and the controversial Bicentennial Fund. Embassy sources discount these rumors at this point, and say that he is likely to stay on at least until the debt swap is completed. (And Boudou got a new public vote of confidence from Cabinet Chief Fernandez on February 24.) Given that he has been the champion within the government of a solution to the holdout problem, his continued presence is crucial. If he goes now, it is unlikely that

the restructuring agreement will be completed anytime soon.  
MARTINEZ